



News

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ALICIA R. CASTANEDA'S TESTIMONY AT OVERSIGHT HEARING

Chairman Alicia R. Castaneda of the Federal Housing Finance Board gave the following statement during an oversight hearing today by the Subcommittee on Oversight and Investigations and the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises of the House Committee on Financial Services.

Thank you, Chairwoman Kelly and Ranking Member Gutierrez. Thank you, as well, Chairman Baker and Ranking Member Kanjorski.

This is my first appearance before Congress since I joined the Federal Housing Finance Board and became its Chairman in April. I am honored to appear before your two subcommittees to discuss the Federal Housing Finance Board and its oversight of the Federal Home Loan Bank System. I am speaking today as Chairman, and my remarks do not necessarily represent the views of my Board colleagues.

I came to the Finance Board after 28 years in commercial banking, experience that is proving very valuable in my new role as Chairman of the independent regulatory agency charged with oversight of the 12 Federal Home Loan Banks and the Office of Finance.

As you know, the Banks are government-sponsored enterprises, and their members comprise more than 8,000 commercial banks, savings and loans, insurance companies and federally insured credit unions.

Today, I can say with full confidence that the Finance Board is fulfilling the duties Congress gave it in the Federal Home Loan Bank Act: To ensure that the Federal Home Loan Banks operate in a financially safe and sound manner, carry out their housing finance mission, and remain adequately capitalized and able to raise funds in the capital markets.

Over the past two years, the Finance Board has made great strides in enhancing our capabilities to carry out these duties. The clearest evidence can be seen in the tripling of our examination staff.

However, bank supervision is more than just examinations. We have also hired highly qualified mortgage specialists, bank analysts, community development specialists, accountants and economists. We are upgrading our technology and systems. These all contribute significantly to our oversight and supervision of the Federal Home Loan Banks.

While the agency has indeed come a long way, there is still more to do. I can assure this committee that, as Chairman, I am committed to a course of constant improvement. My intention is to continue building our staff, adding necessary resources, and fostering a world-class regulatory culture at the Finance Board.

As a regulator, the Finance Board's job is to do what needs to be done, when it needs to be done. That's been my approach since I joined the Board in January, and it will be as long as I remain on the Board.

Which leads me to several recent developments that I think reflect our regulatory approach.

First, the Finance Board last month voted unanimously to require the Home Loan Banks to register with the Securities Exchange Commission under the Securities Exchange Act of 1934.

The Federal Home Loan Banks are among the biggest debt issuers in the country, issuing roughly \$500 billion in bonds annually in recent years. The Home Loan Banks collectively had \$765 billion in debt outstanding as of March 31, 2004.

Given these facts, the Finance Board called for consistent, enhanced and transparent disclosures from the individual Banks to help achieve market discipline. Because investors in that market, as well as the Banks' members and the public, should and will know more about the risks faced by these financial institutions.

Registration will also ensure that Home Loan Bank disclosure standards are fully comparable to those of the other housing GSEs and large private financial institutions. Based on my experience as a banker and fixed income trader, I believe this will help ensure that the Banks are not disadvantaged in their access to capital markets.

For all these reasons, we adopted the regulation, and the registration process is now under way. Each Bank will be required to first file with the SEC by no later than June 30, 2005, and to have their registrations effective by no later than August 29, 2005.

A second recent development occurred on the supervisory front. On June 30th, the Finance Board and the Federal Home Loan Bank of Chicago entered into a written agreement to address certain shortcomings in the Bank's risk management, internal audit, capital management, and accounting and financial recordkeeping practices.

These shortcomings were identified in recent Finance Board examinations of the Bank. After a series of incremental steps dating back several years, my colleagues and I on the Finance Board determined that a formal written agreement was the necessary and appropriate next step to improve the Bank's management and oversight of these issues.

Third, and finally, let me describe what the Finance Board is doing with respect to the Affordable Housing Program.

Beginning in 1990, Congress required the Federal Home Loan Banks to set aside 10 percent of their profits for low-income housing. Since its inception, the AHP program has provided some \$2 billion in grants and subsidies for affordable housing.

The Finance Board is committed to ensuring that these programs operate in a safe and sound manner and help fulfill the Home Loan Banks' housing finance mission. We are currently conducting a System-wide review of the Home Loan Banks' AHP programs to help evaluate what they are doing in this area. We are also building a core of examiners to focus solely on the Affordable Housing Program, and have added new community development specialists to further assist in examinations.

Madame Chairman, Mister Chairman, members of the subcommittees, thank you for allowing me this opportunity today to outline our activities at the Federal Housing Finance Board.

I believe we have attained a level of expertise, experience and capabilities that makes the Finance Board an accomplished, effective financial regulatory agency, one that serves the public in the way Congress intended – through rigorous oversight of the Federal Home Loan Banks and their housing finance and affordable housing missions.

Thank you.